Senator Runner's Week in Review

A Weekly Review That Will Keep You Informed and Up-to-Date

News of the Week

Antelope Valley Cities Post Leaps in Assessed Values

Minuteman Leader: Don't Bring Guns

Thomas Sowell Column: Smart Growth: Haves and Have Nots

Campaign 08 Preview: Podcasting Politicians

Sexual Predator To Pick Housing

Victorville Based DC-10 Makes History

Santa Clarita A Host City for 07 Tour of California Race

Hollywood Subsidies

An important part of California's economy is the film industry – especially in Southern California. Unfortunately, many laws and regulations overburden our businesses, including the film industry, and drive them out of the state. While it is important to stop runaway production, however we have to do it smartly and strategically. I strongly believe we need broad changes to make California more competitive and business friendly.

For the past several years, Hollywood has been lobbying Sacramento lawmakers for tax breaks for the movie and film industry. The latest attempt is Speaker Fabian Nunez's Assembly Bill 777.

Snapshot of AB 777

Hollywood proponents argue that tax incentives provided by other states are forcing a $34 billion-a-year movie production industry to "run away" from California. In an attempt to retain the industry, Democrats propose to offer refundable tax credits for movies, television miniseries, and commercials produced in California. Depending on the feature type, the credit would be equal to 12 percent or 15 percent of its production costs, up to as much as $3 million per feature. So far, the bill does not limit the amount of credits that may be given a year; however, Democrats are looking at giving Hollywood anywhere between $75 million and $100 million annually, or as much as $750 million to $1 billion over the next ten years.

California's Hostile Business Climate

Like other economic sectors, the movie industry has been relocating to other states, and even other countries, because of the high cost of doing business in California. When compared to the rest of the nation, California ranks 11th in terms of the most anti-business climates, according to a February 2006 report from the Tax Foundation. In addition to higher taxes, California also has more rigid labor rules, stricter business regulations, less reliable energy supplies, and higher building and construction costs.

It's no great mystery that the movie industry is leaving California. What is ironic is that the majority party recognizes the detrimental impact of the state's hostile business climate on the movie industry, but not on others. Time and time again, Republicans have advocated for tax incentives for manufacturing and research sectors that create jobs for working Californians, only to be portrayed as pro-business tax relief supporters. Yet, Democrats become converts when it comes to a glitzy favored industry.

Currently, AB 777 is a special-interest, one-industry band aid for a systemic problem. If Democrats are truly concerned about California's economic well-being, a more workable solution would be a broad-based tax incentive that includes all of California's major industries (manufacturing, research, biotech, etc.), packaged with labor and regulatory reforms. Otherwise, it's doubtful if tax credits alone could overcome California's hostile business laws enough to keep the movie business and other industries in the state.

Corporate Welfare for Hollywood

Besides concerns associated with a single-industry approach, many Republicans find refundable tax credits problematic. In principle, a tax credit is an offset of the amount that a taxpayer owes in taxes, after taking deductions and exemptions. A tax credit becomes refundable when the taxpayer owes no taxes and the state ends up taking money out of the state treasury to pay the taxpayer. In short, it is a direct cash payment from other taxpayers.

Many movie companies owe little or no taxes on their returns because of numerous tax breaks. According to the California Franchise Tax Board, the movie industry already receives special tax treatment when it comes to income apportionment formulas, write-offs for amortization, and other tax credits for location in designated enterprise zones. The Board of Equalization also reports that movie production companies do not pay sales taxes on various equipment purchases as well as transfers and leases of movie rights. On top of that, production companies do not include profit from movie toys, games, T-shirts and other items as part of their taxable income. Oftentimes, the sale of these items is the movie's largest profit source. Despite these tax breaks leaving movie production companies frequently owing no taxes, Hollywood still wants a tax refund.

California law currently authorizes only one refundable tax credit. It is a credit for expenses incurred by families with incomes of less than $100,000 for the care of children and elderly parents. To give Hollywood a refundable tax credit similar to those provided only to working families amounts to corporate welfare for one of the wealthiest industries in the world.

Is It Worth It?

Supporters of AB 777 argue that keeping the movie industry in the state benefits the economy. However, AB 777 does not require a report evaluating the cost of providing the tax credits versus the revenues generated from companies that stayed in California because of those credits. Furthermore, Hollywood wants the tax credits guaranteed for ten years and the funding to be continuously appropriated. Essentially, this allows the Hollywood tax credits to continue unchecked for ten years, with only the pro-forma report to the Legislature. In its current form, even if the tax credits were a failure, the Legislature would only be able to repeal the tax credit with a two-thirds vote.

A more responsible approach would be to require an analysis that quantifies the increased revenues directly attributable to those companies that were retained specifically because of the tax credit versus the cost of providing the credits. In addition, AB 777 also should include a trigger that sunsets the tax credits in any year in which the analysis indicates that the costs actually exceed the revenue. Tax credits for businesses ought to generate business investments and should not be for giving away public funds, especially when California is still digging itself out of a deficit spending hole.

Conclusion

Like its predecessors, AB 777 provides a refundable tax credit that raises numerous problems for policymakers concerned about the state's fiscal well-being. First, it's doubtful whether a tax credit alone could overcome California's unfriendly business laws enough to keep the industry in the state. Second, absent a quantifiable analysis, it's unclear whether the revenues from retaining movie companies would be sufficient to justify the costs of the tax credit. Moreover, without a sunset trigger, the state could be locked in to a ten-year subsidy. Third, providing a refundable tax credit for Hollywood, akin to one afforded to California's working families, is unsound public policy precedence.

As currently written, AB 777 is a tax atrocity and, to borrow the title of Quentin Tarantino's movie, policymakers ought to "Kill Bill."

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